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1901

A REVIEW AND ANALYSIS

OF THE

Results of Operation and Financial Condition

OF THE

Atchison, Topeka & Santa Fe Railway Co.

7650235

LEE, HIGGINSON & CO.

44, STATE STREET,

BOSTON.

CITY OF BOSTON

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Aug. 17, 1901.

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A REVIEW AND ANALYSIS

OF THE

RESULTS OF OPERATION AND FINANCIAL CONDITION

OF THE

Atchison, Topeka & Santa Fe Railway Company.

FUNDED DEBT AND CAPITAL STOCK OUTSTANDING.

FUNDED DEBT, JUNE 30, 1900.

Chicago & St. Louis Railway Company First Mortgage Six Per Cent Bonds, due March 1, 1915	$1,500,000
Chicago, Santa Fé & California Railway Company First Mortgage Five Per Cent Bonds, due Jan. 1, 1937	629,000
Atchison, Topeka & Santa Fé Railway Company General Mortgage Four Per Cent Bonds, due Oct. 1, 1995	131,249,000
Atchison, Topeka & Santa Fé Railway Company Adjustment Mortgage Four Per Cent Income Bonds, due July 1, 1995	51,346,000
Equipment Trust Five Per Cent Bonds, due Jan. 1, 1902	317,500
San Francisco & Joaquin Valley Railway First Mortgage Five Per Cent Bonds, due Oct. 1, 1940	6,000,000
Hutchinson & Southern Railway First Mortgage Five Per Cent Bonds, due Jan. 1, 1928	195,000
Total	$191,236,500

There have been sold since July 1, 1900, $6,843,500 additional General Mortgage Four Per Cent Bonds, to cover chiefly the cost of new construction, new equipment and betterments prior to July 1, 1900, making a total of $138,639,500 of such bonds now outstanding (including $547,000 in the Company's Treasury) and a total bonded debt (after deducting Equipment Bonds paid off since June 30, 1900) of about $198,500,000

CAPITAL STOCK.

Preferred, five per cent non-cumulative	$114,199,530
Common	102,000,000
Total stock	$216,199,530
Total Bonds and Stock	$414,699,530

BONDS AND STOCK PER MILE OF ROAD.

Number of miles of road owned	7,746
Bonded debt, per mile of road	$25,626
Preferred stock, per mile of road	14,743
Total Bonds and Preferred Stock per mile	$40,369
Common Stock	13,168
Total Bonds and Stock per mile	$53,537

THE INCOME AND PROFIT AND LOSS ACCOUNTS

FOR THE FOUR COMPLETE FISCAL YEARS SINCE THE REORGANIZATION MAY BE SUMMARIZED AS FOLLOWS:

Year ending June 30,	1897.	1898.	1899.	1900.
Average Miles Operated	6,899.28	6,936.02	7,032.62	7,341.34
Income Account:				
Gross Earnings	$30,621,230	$39,214,099	$40,513,498	$46,232,078
Operating Expenses	22,867,189	28,506,335	27,606,681	27,521,499
Surplus	$7,754,041	$10,707,764	$12,906,817	$18,710,579
Taxes	1,363,533	1,420,123	1,460,650	1,543,601
Net Earnings	$6,390,508	$9,287,641	$11,446,167	$17,166,978
Miscellaneous Income	254,499	182,027	249,435	266,821
Total	$6,645,007	$9,469,668	$11,695,602	$17,433,799
Rentals of Tracks and Terminals	$514,451	$295,541	$208,560	$282,692
"Interest on Bonds"	4,608,858	4,992,148	5,188,132	5,291,327
Interest on Adjustment Bonds	–	–	2,053,840	2,053,840
Miscellaneous Charges	69,253	291,554	57,072	66,635
Total	$5,192,562	$5,579,243	$7,507,604	$7,694,494
Net Income credited to Profit and Loss Account	$1,452,445	$3,890,425	$4,187,998	$9,739,305
Charges Against Profit and Loss:				
Back Interest on Adjustment Bonds	–	(3%) 1,540,380	(4%) 2,053,840	–
Balance	$1,452,445	$2,350,045	$2,134,158	$9,739,305
Dividends on Preferred Stock	–	–	(1%) 1,141,657	(2 3-4%) 3,139,557
Balance	$1,452,445	$2,350,045	$992,501	$6,599,748
Miscellaneous Net Charges to Profit and Loss	(Cr.) 9,061	10,626	520,654	1,019,621
Net credit to Profit and Loss for Year,	$1,461,506	$2,339,419	$471,847	$5,580,127

The three per cent interest on the Adjustment Bonds charged "Profit and Loss," in the accounts for the year ending June 30, 1898, was declared as payable out of income accumulated during the eighteen months from Jan. 1, 1896, to Jan. 30, 1897. The four per cent on said bonds similarly charged "Profit and Loss," in the accounts for the year ending June 30, 1899, was declared as payable out of income for the fiscal year ending June 30, 1898.

The miscellaneous net charges to Profit and Loss in 1899 and 1900 represent chiefly *discount on bonds* sold since the reorganization, $500,000 having been thus charged off in 1899 and $1,000,000 in 1900. The conservatism of this action is self-evident. It should be noted that the General Mortgage Four Per Cent Bonds are now selling at a premium of about two per cent.

The accumulated Profit and Loss Surplus shown by the balance sheet on June 30, 1900, was $9,994,619, out of which a semi-annual dividend of two and one half per cent ($2,854,345) was declared on the preferred stock, payable Aug. 1, 1900, leaving an undivided surplus, as of June 30, 1900, of $7,140,274.

A semi-annual dividend of two and one half per cent was declared payable in February, 1901, thus placing the Preferred Stock on a five per cent basis for the current year.

FINANCIAL CONDITION, JUNE 30, 1900.

The balance sheet of June 30, 1900, shows that cash on hand and other current assets (including among the latter available securities of the company in its treasury valued at $2,772,389) exceeded all current and accrued liabilities in the sum of $3,968,918, and in addition thereto the company was entitled to receive for its own use its General Mortgage Five Per Cent Bonds to reimburse it for capital expenditures theretofore made to the amount of $5,758,300, a total of $9,727,218, so that substantially the entire Profit and Loss Surplus was in the shape of quick assets. As above stated, $6,843,500 of General Mortgage Bonds have since been sold to reimburse the treasury for capital expenditures already made.

To provide for improvements and for the acquisition of additional property the company has in reserve about $15,000,000 General Mortgage Four Per Cent Bonds, issuable at a maximum rate of $3,000,000 per year. After this $15,000,000 is expended, $20,000,000 of the Adjustment Bonds are issuable for improvements and new property, at a maximum rate of $2,000,000 per year, such issue, however, being subject to the approval of the holders of a majority of the Adjustment Bonds.

It will thus be seen that the company is not only in a very strong position, in respect to available current assets, but is also provided with abundant means of financing the cost of any needed additions and improvements to the system.

EARNINGS AND INCOME SINCE JULY 1, 1900.

For the period, July 1, 1900, to Feb. 28, 1901, earnings and expenses are reported as follows: —

	8 months, 1900–1.	8 months, 1899–1900.	Increase.
Gross Earnings	$35,506,442	$31,091,419	$4,415,023
Operating Expenses	21,235,747	18,840,889	2,394,858
Net Earnings	14,270,695	$12,250,530	$2,020,165
Taxes and Rentals	1,339,587	1,287,099	52,488
Income from Operation	$12,931,108	$10,963,431	$1,967,677
Average operated mileage	7,806	7,632	174

Upon the assumption that the net earnings for the four months to June 30, 1901, will at least equal those of the four months to June 30, 1900, a forecast of the income for the fiscal year ending June 30, 1901, is as follows: —

The income applicable to dividends for the year ended June 30, 1900, was		$9,739,305
The increase in "Income from Operation" for the eight months, July, 1900, to February, 1901, inclusive, as above, was	$1,967,677	
Add income included, for purposes of comparison, in the above statement for the eight months, July, 1899, to February, 1900, inclusive, for lines not operated in that year	96,048	2,063,725
Total		$11,803,030
Deduct approximate increase in Interest on Bonds, viz.: —		
Increase as forecasted on page seven of the company's annual report for 1900	$405,708	
Estimated interest on the $6,843,500 General Mortgage Four Per Cent Bonds sold at various times since July 1, 1900	157,000	562,708
Estimated income applicable to dividends for the year ending June 30, 1901, if net earnings from March to June, 1901, inclusive, should equal those of previous year		$11,240,322
Five per cent dividend on $114,199,530 preferred stock requires,		5,709,976
Balance		$5,530,346

This would be equal to 5.42 per cent on the $102,000,000 common stock outstanding.

The above estimate assumes that "Miscellaneous Income" and "Miscellaneous Charges" will be the same as last year, the net result of these two items being a credit to income of $200,186 in that year.

The company reports that there has been included in operating expenses for the eight months, July 1, 1900, to March 1, 1901, and credited to "Special Betterment Fund," the sum of $900,000. It will be noted that this amount is equal to nearly *one per cent additional* on the common stock.

The remarkable increase in Atchison's earning capacity during the past three years — by reason of which it can now show five per cent earned on both its preferred and common stocks (aggregating $216,000,000 par value), while in 1897 its reported income was sufficient to pay only about three per cent on its "adjustment" bonds — is due, primarily, of course, to an enormous increase in traffic, owing to the improved business conditions of the country. It is also due, to no small extent, to a very marked improvement in operating efficiency and the economies resulting therefrom.

The following statements show the volume and growth of traffic, and the reduced cost of handling it. Comparisons are shown not only for the four years' operation of the new company, but also for the years 1890, 1891 and 1892. While the system, as now operated, does not exactly coincide with the mileage operated prior to the receivership, the differences are not believed to be sufficiently great to invalidate the comparisons.

FREIGHT TRAFFIC.

Year.	Tons — One Mile.	Tons. One Mile Per Mile of Road.	Freight Earnings.	Average Rate Per Ton Per Mile.	Freight Earnings Per Road Mile.
				Cents.	
1890	1,769,828,696	248,900	$21,733,153	1.228	$3,056
1891	1,844,663,240	259,400	23,329,649	1.265	3,280
1892	2,117,044,558	297,100	25,803,383	1.219	3,622
1897	2,062,483,268	298,900	22,067,686	1.070	3,286
1898	2,779,555,249	400,700	28,588,716	1.029	4,122
1899	2,893,011,496	411,400	29,492,586	1.019	4,194
1900	3,454,591,785	470,600	33,729,332	0.976	4,594

It will be noted that in 1900 the volume of freight traffic, *per mile of road operated*, has *increased*, as compared with 1890, eighty-nine per cent; as compared with 1897, fifty-seven per cent.

On the other hand, the average rate per ton per mile has *decreased*, as compared with 1890, twenty per cent; as compared with 1897, nine per cent

The net result being that the freight earnings per mile of road *increased*, as compared with 1890, fifty per cent; as compared with 1897, forty per cent.

PASSENGER TRAFFIC.

Year.	Passengers Carried One Mile.	Passengers One Mile per Mile of Road.	Earnings from Passengers.	Average Rate per Passenger per Mile.	Passenger Earnings per Mile of Road.
				Cents.	
1890	295,234,950	41,500	$6,610,033	2.234	$930
1891	307,567,940	43,200	7,248,693	2.357	1,019
1892	308,914,009	43,200	7,377,995	2.388	1,036
1897	243,052,426	35,200	5,574,288	2.293	808
1898	325,650,304	46,900	7,347,361	2.256	1,059
1899	356,783,683	50,700	8,126,141	2.278	1,155
1900	412,937,134	56,200	9,334,661	2.261	1,271

It will be noted that the average rates per passenger per mile were slightly higher in 1900 than in 1890, and have not varied greatly in the years named.

The volume of passenger traffic and earnings per mile of road in 1900, *increased* about 35 per cent as compared with 1890, and about 60 per cent as compared with 1897.

MAINTENANCE OF WAY AND STRUCTURES.

The amounts charged operating expenses for Maintenance of Way and Structures were: —

Year.	Miles of Road.	Amount Charged M. W. & S.	Amount Per Road Mile.	Amount Per Mile Run by Locomotives
				Cents.
1890	7,110.95	$4.752,749	$668	16.31
1891	7,111.61	5,074,672	714	15.25
1892	7,124.39	4,954,113	695	14.41
1897	6,899.28	6,282,923	911	20.51
1898	6,936.02	8,281,397	1,194	22.61
1899	7,032 62	7,672,107	1,091	21.15
1900	7,341.34	6,354.372	866	17.34

The rate of expenditure for maintenance of way in the year 1900 was, it is believed, fully sufficient for normal maintenance and renewals of roadway and structures. In fact, $800 per mile would probably have provided for fair average maintenance, taking into consideration the location of the system, its density of traffic, and the very considerable proportion of branch line mileage. Even assuming, however, that the expenses for 1900 ($866 per mile) represented no more than normal maintenance, the company has charged to expenses in the three years, 1897, 1898 and 1899, something over $4,000,000 for betterments to roadway and structures.

MAINTENANCE OF EQUIPMENT.

The average cost of maintenance of rolling stock, charged operating expenses, has been: —

Year.	Total Expenses for Maintenance Equipment.	Repairs and Renewals of Locomotives.		Repairs and Renewals of Freight Cars.		Repairs and Renewals of Passenger Cars.
		Per Locomotive.	Per Mile Run.	Per Car.	Per Mile Run.	Per Car.
			Cents.		Cents.	
1890	$2,669,467	$1,373	4.28	$50.64	0.44	$410
1891	3,399,204	1,727	5.04	47.96	0.47	506
1892	4,064,561	1,879	5.48	53.34	0.54	647
1897	3,443,885	1,447	4.50	60.65	0.55	551
1898	4,659,278	1,972	5.58	70.74	0.55	614
1899	4,810,795	2,032	5.92	73.68	0.58	715
1900	5,267,832	2,097	6.64	81.06	0.61	550

It is estimated that an average expenditure for repairs and renewals of locomotives of five cents per mile run, and for repairs and renewals of freight cars of five mills per mile run, would be sufficient for normal maintenance. The above averages indicate, therefore, that since 1897 the charges to operating expenses for maintenance of locomotives and freight cars have been well in excess of normal requirements, while passenger car repairs have been probably quite sufficient. In the year 1900 it is estimated that about $1,000,000 was charged to expenses for maintenance of equipment in excess of what should have been sufficient for average normal repairs and renewals, while, during the four years, 1897–1900, betterments to equipment charged operating expenses have, it is estimated, amounted to, at least, $2,000,000.

It is thus estimated that during the past four years at least $6,000,000 has been charged to expenses for maintenance of way and equipment, representing improvements in the physical condition of the property. In addition to this the properties have been improved by expenditures charged to capital account, aggregating since Jan. 1, 1896:—

For Improvements to Roadway and Structures	$10,334,031
For New Equipment	2,160,594
Total	$12,494,625
Add estimated amount of betterments included in operating expenses, as above	6,000,000
Total estimated expenditure for improvements in roadway and equipment since the reorganization, to June 30, 1900	$18,494,625

The above statement covers only expenditures for betterments to the properties originally acquired upon reorganization in 1896, and is exclusive of capital expenditures for additional railroad mileage acquired since that time.

The result of this expenditure of over $18,000,000 for improvements to the property is shown in the marked increase in train haul, and in the greatly reduced ratio of conducting transportation expenses to gross earnings as exhibited in some of the following statements.

GROSS EARNINGS AND OPERATING EXPENSES.

Year.	Gross Earnings.	Operating Expenses and Taxes.			Net Earnings.
		For Maintenance of Way and Equipment.	For Conducting Transportation and General Expenses.	Taxes.	
1890	$31,004,357	$7,422,216	$13,498,169	*$1,250,000	$8,833,971
1891	33,663,716	8,473,876	15,569,292	1,240,018	8,380,529
1892	36,438,189	9,018,674	16,192,258	1,103,500	10,123,755
1897	30,621,230	9,726,808	13,140,380	1,363,533	6,390,508
1898	39,214,099	12,940,675	15,565,658	1,420,123	9,287,641
1899	40,513,498	12,482,902	15,123,777	1,460.650	11,446,167
1900	46,232,078	11,622,204	15,899,294	1,543,601	17,166,978

* Approximate.

The large increases in expenditures for maintenance during the past three years, and the relatively small increase in expenses for conducting transportation, are significant features of the above statement. Comparing the year 1900 with 1892, it will be seen that the Atchison handled in 1900 traffic yielding, in round numbers, $10,000,000 more gross earnings than in 1892, while the cost of Conducting Transportation and General Expenses was a little less in 1900 than in 1892, so that the $10,000,000 gain in gross earnings was all net profit, from the standpoint of the cost of transportation.

In comparison with 1897, the gross earnings increased in 1900, $15,610,848, or over fifty per cent, while the Conducting Transportation and General Expenses increased only $2,758,914, or twenty-one per cent.

EARNINGS AND EXPENSES PER MILE OF ROAD OPERATED.

The following statement summarizes the operating results *per mile of road* for the years named: —

Year.	Gross Earnings.	Operating Expenses and Taxes.						Net Earnings.
		For Maintenance.			Conducting Transportation and General Expenses.	Taxes.	Total Operating Expenses and Taxes.	
		Roadway and Structures.	Equipment.	Total for Maintenance.				
1890	$4,360	$668	$375	$1,043	$1,898	$176	$3,117	$1,243
1891	4,733	714	478	1,192	2,189	174	3,555	1,178
1892	5,114	695	571	1,266	2,273	155	3,694	1,420
1897	4,438	910	499	1,409	1,905	198	3,512	926
1898	5,653	1,194	672	1,866	2,244	205	4,315	1,338
1899	5,760	1,091	684	1,775	2,151	208	4,134	1,626
1900	6,297	865	718	1,583	2,165	213	3,961	2,336

The increase of net earnings per mile of road from $926 in 1897 to $2,336 in 1900, comprises: —

	Amount.	Per Cent.
Increase in Gross Earnings per mile	$1,859	41.9
Less Increase in Cost of Conducting Transportation and General Expenses and Taxes, per mile . . .	275	13.1
	$1,584	67.8
Out of which there was expended for increased cost of Maintenance per mile	174	12.3
Increase in net earnings per mile	$1,410	152.

The same facts are further illustrated by comparing the ratios of the several classes of expenses to the gross earnings, viz.: —

RATIOS OF EXPENSES TO GROSS EARNINGS.

Year.	Maintenance of Way and Equipment.	Conducting Transportation and General Expenses.	Taxes.	Total.
1890	24.0%	43 5%	4.0%	71.5%
1891	25.2	46.2	3.7	75.1
1892	24.8	44.4	3.0	72.2
1897	31.8	42.9	4.4	79.1
1898	33.0	39.7	3.6	76.3
1899	30.8	37.3	3.6	71.8
1900	25.1	34.4	3.3	62.8

When it is considered that the average freight rates were twenty per cent lower in 1900 than in 1890, the reduction of 9.1 per cent in the ratio of Conducting Transportation and General Expenses to Gross Earnings (viz.: from 43.5 per cent to 34.4 per cent) is all the more noteworthy.

The following statements showing the average train load and average gross and net earnings per train mile indicate the means by which a large part of this economy in transportation-cost has been effected.

Year.	Average No. of Tons of Freight Per Freight Train Mile.	Average Rate Per Ton Per Mile.	Average Freight Earnings per Freight Train Mile.	Gross Earnings and Expenses per Revenue-Train Mile.					
				Gross Earnings.	Expenses.				Net Earnings.
					Maintenance Way and Equipment.	Conducting Transportation and Gen'l.	Taxes.	Total.	
		Cents							
1890	125	1.228	$1.54	$1.39	$0.33	$0.61	$0.05	$0.99	$0.40
1891	114	1.265	1.45	1.33	.33	.62	.05	1.00	.33
1892	122	1.219	1.49	1.38	.34	.62	.04	1.00	.38
1897	131	1.070	1.40	1.29	.41	.55	.05	1.01	.28
1898	142	1.029	1.46	1.38	.45	.55	.05	1.05	.33
1899	161	1.019	1.65	1.49	.46	.56	.05	1.07	.42
1900	221	0.976	2.16	1.83	.46	.63	.06	1.15	.68

It will be noted that the increases in freight train load and freight train earnings were comparatively small up to 1900, but the results for the latter year give striking evidence of the great improvement in the physical condition of the property. A further improvement in train load and train earnings may confidently be expected in the present year.

As compared with 1890 and with 1897, the results for 1900 show the following percentages of difference: —

	As Compared with 1890.	As Compared with 1897.
Average freight train load in 1900 *increased* . .	77 per cent.	69 per cent.
Average freight rates *decreased*	20 " "	9 " "
Average freight earnings per freight train mile *increased*	40 " "	54 " "
Gross earnings per train mile *increased* . . .	32 " "	42 " "
Maintenance of Way and Maintenance of Equipment Expenses per train mile *increased* . .	39 " "	12 " "
Conducting Transportation and General Expenses per train mile *increased*	3 " "	15 " "
Net earnings per train mile *increased* . . .	70 " "	143 " "

SUMMARY AND CONCLUSIONS.

1. At the present time, Atchison's earnings, above all charges and the five per cent dividend on its preferred stock, are at the rate of from five to six per cent on its common stock, after making liberal charges for maintenance.

2. Assuming that average traffic rates will be maintained at substantially their present level, it is fair to estimate that the Atchison's gross earnings could fall about twenty

per cent (or from $9,000,000 to $10,000,000) below its present earnings, without making it necessary to reduce the rate of dividend on its preferred stock below five per cent. The net income for the present fiscal year bids fair to be at least $6,000,000 above the preferred dividend. Assuming that rates were no lower than at present, in the event of a decrease of $10,000,000 in gross earnings, there could easily be a reduction of $2,500,000 in transportation expenses, while expenses for maintenance of way and equipment could then properly be reduced fully $2,000,000 per annum, without detriment to the property. Thus the estimated net loss, due to a gross loss of $10,000,000, should not exceed $5,500,000, which is substantially the amount of present earnings in excess of the five per cent preferred dividend.

3. The present margin of about $11,000,000, earned above the interest upon the adjustment bonds is sufficient to warrant the belief that even under any depression in business, which in the light of past experience could reasonably occur, the company would be able to earn more than the full amount of interest on those bonds. In point of fact, even in the year ending June 30, 1897, when business conditions were at a low ebb, and the Atchison's annual gross earnings were about forty per cent (or about $20,000,000) less than at present, the company fairly earned the full amount of the interest on the adjustment bonds, taking into consideration the fact that the expenses for maintenance of way in that year were at the high rate of $910 per mile of road, or fully $800,000 more than normal necessities would require. In view of the large improvement in operating efficiency since then, and in view of the fact that rate disturbances are less likely to occur in the future than in the past, under the policy of those now in control of the several transcontinental railroads, it is hardly conceivable that Atchison's earnings are likely to fall to a point where the full interest upon the adjustment bonds cannot be met.

4. One of the most important elements of Atchison's financial stability is the exceedingly low rate of its fixed charges. Excluding the interest upon its adjustment bonds, its charges for interest and rentals are at the rate of only $759 per mile of road per year. This is probably a lower rate of fixed charges than that of any other large system of railroads in the United States. Including the interest upon the adjustment bonds (payment of which is obligatory only when earned, but is cumulative), the Atchison's charges for interest and rentals are at the rate of only $1,039 per mile.

Josiah F. Hill,

Statistician for Lee, Higginson & Co.,

44, State Street, Boston.

April 2, 1901.